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SUBJ: FOREIGN EXCHANGE RESERVES AT MID-YEAR

REF: DACCA 4237

1. BANGLADESH FOREIGN EXCHANGE RESERVES STOOD DECEMBER 5 AT TAKA 2,057 MILLION, EQUIVALENT TO \$141 MILLION AT CURRENT 14.6 TAKA TO ONE DOLLAR EXCHANGE RATE. TAKA FIGURE PUBLISHED BY BANGLADESH BANK. RESERVES STOOD AT \$261 MILLION ON JUNE 30, 1975.

2. BANGLADESH BANK GOVERNOR AHMED TOLD EMBOFF DECEMBER 23 THAT RESERVES HAD SINCE DECLINED FURTHER TO \$130 MILLION AND WOULD DECLINE

TO JUST OVER \$100 MILLION AT END OF CURRENT FISCAL YEAR. THUS, AT MID-POINT IN CURRENT FISCAL YEAR, BANGLADESH RESERVES HAVE FALLEN BY SOME \$130 MILLION.

3. DURING FIRST SIX MONTHS OF FY '76 BANGLADESH DREW IMF OIL FACILITY FUNDS OF SDR 25.8 MILLION. DURING COMING SIX MONTHS BANGLADESH WILL DRAW FULL SDR 62.5 MILLION IN ACCORDANCE STAND-BY ARRANGEMENT OF JULY 28, 1975. TOTAL IMF DRAWINGS OVER YEAR OF \$106.5 MILLION EQUIVALENT COMBINED WITH RESERVE DECLINE OF NEARLY \$160 MILLION, IS

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EXPLANED IN MAJOR PART BY FOLLOWING CAUSATIVE FACTORS:

A. CONTINUING DISAPPOINTING EXPORT PERFORMANCE. AGAINST FY '76

TARGET OF \$390 TO \$400 MILLION, ACTUAL EXPORT RECEIPTS ARE NOT EXPECTED TO EXCEED \$350 MILLION.

B. SHORT-TERMED IMPORT AND SUPPLIERS' CREDITS. DURING FY '74 AND '75 BANGLADESH PURCHASED NUMEROUS IMPORT COMMODITIES AGAINST 180-DAY AND 360-DAY LETTERS OF CREDIT AND OTHER SHORT-TERM SUPPLIERS CREDITS. BY FAR THE MOST IMPORTANT SUCH DEBT IS THE \$50 MILLION DUE IN FY '76 AGAINST AUSTRALIAN WHEAT PURCHASED ON 18-MONTH CREDIT IN 1973 AND SHIPPED DURING 1974. IN ADDITION, SUCH FOREIGN MANUFACTURERS IN BANGLADESH AS SQUIBB AND PFIZER WERE IMPORTING PHARMACEUTICAL RAW MATERIALS ON 360-DAY SUPPLIERS' CREDIT. THIS YEAR, BANGLADESH HAS SHIFTED AWAY FROM SUCH SHORT-TERM CREDITS IN ACCORDANCE WITH ITS JUNE 11 LETTER OF INTENT TO THE IMF (SEE PARA 17). TOTAL REPAYMENTS AGAINST SUPPLIERS/EXPORT CREDITS WILL AMOUNT TO ABOUT \$60 MILLION IN 1975/76. TOTAL SHORT-TERM DEBT PAYMENTS INCLUDING THE AUSTRALIAN WHEAT REPAYMENT MAY THUS AMOUNT TO OVER \$100 MILLION.

C. LIBERALIZED IMPORT PROGRAM. IMPORTS AGAINST CASH (I.E., EXPORT EARNINGS, IMF DRAWINGS, RESERVE DRAWDOWN AND OTHER NON-AID SOURCES) FOR THE ENTIRE FY WERE SET LAST JUNE AT TAKA 400 CRORES OR, AT THE THEN RATE OF EXCHANGE, ABOUT \$300 MILLION. THIS MAJOR COMPONENT OF THE SEMI-ANNUAL SHIPPING PERIOD IMPORT PROGRAMS FINANCES OIL IMPORTS, WHICH ALONE ACCOUNT FOR ONE HALF OF THE TOTAL, ANY COMMERCIAL FOODGRAIN PURCHASES (THERE WILL BE NONE THIS FISCAL YEAR), TOBACCO AND OTHER RAW MATERIALS AND CONSUMER GOODS. THIS AMOUNT IS ABOUT THE SAME AS IN FY '75. FROM FY '75 TO FY '76 THE PROGRAM WAS LIBERALIZED AND ITS COMMODITY COMPOSITION ADJUSTED TO BRING IN INDUSTRIAL RAW MATERIALS, WHILE CASH-FINANCED FOOD IMPORTS WERE NOT NECESSARY.

D. DEBT SERVICE. AN ADDITIONAL FIFTEEN MILLION DOLLARS IS DUE IN DEBT SERVICE PAYMENTS TO FOREIGN DONORS.

E. KUWAITI DEPOSIT. THE 1974 KUWAITI DEPOSIT (DACCA 5164, DATED NOVEMBER 9, 1974) WAS REPAID AT A TOTAL COST, INCLUDING INTEREST, OF ABOUT \$22 MILLION.

4. COMMENT. THE OUTLOOK FOR FY '77 AND BEYOND IS EXTREMELY BLEAK. IMF DRAWINGS ARE NOW LARGELY EXHAUSTED; THERE MAY WELL BE NO REPEAT NO OIL FACILITY IN 1976 AND ONLY THE FOURTH TRANCE OF \$38 MILLION AND/OR ANY NEW FACILITIES TO BE AGREED UPON REMAIN POSSIBLE SOURCES OF FOREIGN EXCHANGE OTHER THAN EXPORT EARNINGS. WITH LIMITED OFFICIAL USE
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ONLY \$100 MILLION RESERVES NEXT JULY 1 AND, GIVEN THE DEPENDENCE ON JUTE, LITTLE PROSPECT THAT EXPORTS WILL GROW SIGNIFICANTLY, TOTAL, FREE FOREIGN EXCHANGE AVAILABILITY INCLUDING RESERVES MAY BE ONLY \$500 MILLION. THE CASH IMPORT PROGRAM WILL NECESSARILY BE GREATLY SQUEEZED AND IMPORT FLEXIBILITY REDUCED. CHESLAW

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